

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 GSA-02 INT-08 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01

H-03 INR-10 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

USIA-15 TAR-02 DRC-01 /164 W
----- 073067

R 260850Z APR 74

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 6807

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBSSY SINGAPORE

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E.O. 11652: N/A

TAGS: EMIN, ETRD

SUBJECT: PRIME MINISTER ANNOUNCES NEW ANTI-INFLATION ACTION

REF: STATE 83487

1. SUMMARY: IN THE FACE OF RISING INFLATION (MARCH PRICES 24PC ABOVE ONE YEAR AGO), PRIME MINISTER RAZAK TOLD PARLIAMENT APRIL TWENTY-THREE OF PROPOSED NEW AND STIFF TAX ACTION WHICH WILL STEEPLY GRADUATE DUTIES AND SURCHARGES ON RUBBER, TIN AND PALM OIL. INITIAL PUBLIC REACTION TO PROPOSAL HAS BEEN ADVERSE, BUT PM HAS POWER TO CARRY THROUGH WITH MEASURES AND EMBASSY EXPECTS HIM TO DO SO DESPITE PRESSURES TO PLACATE ELECTORATE PRIOR TO SNAP GENERAL ELECTIONS EXPECTED THIS SUMMER. END SUMMARY.

2. IN MAJOR SPEECH TO PARLIAMENT ON APRIL TWENTY-
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THREE PRIME MINISTER RAZAK PROPOSED NEW AND STIFF

TAX ACTION TO COUNTER INFLATION PRESSURES INSIDE THE COUNTRY. TAX INCREASES PROPOSED WILL STEEPLY GRADUATE DUTIES AND SURCHARGES ON RUBBER, TIN AND PALM OIL. PURPOSE OF MEASURES IS TO ABSORB A PORTION OF RISING PURCHASING POWER RESULTING FROM BOOMING EXPORTS OF THESE COMMODITIES. TAXES WILL BE APPLICABLE AT PRESENT PRICES OF COMMODITIES, AND WILL GENERATE TAX COLLECTIONS OF M\$142 MILLION IN 1974, 2.8 PERCENT OF ESTIMATED TOTAL RECEIPTS FOR THESE PRODUCTS IN 1974. HOWEVER, THIS WILL ABSORB ABOUT 15 PERCENT OF INCREASE IN PURCHASING POWER FROM THESE EXPORT EARNINGS, AND COULD HAVE SIGNIFICANT ANTI-INFLATIONARY RESULTS.

3. INITIAL REACTION TO PROPOSAL HAS BEEN ADVERSE, BECAUSE OF THE TAX IMPACT ON LOW INCOME EARNERS. AS TAX IS LEVIED IN TERMS OF PRICE, IT IS LEVIED IRRESPECTIVE OF INCOME. POLITICALLY SENSITIVE LOW INCOME EARNERS WILL BEAR MUCH OF BURDEN OF THE TAX, PARTICULARLY RUBBER SMALLHOLDERS, TAPPERS, FLDA SETTLERS, AND SMALL-SCALE TIN PRODUCERS. SPOKESMEN OF ALL OF THESE GROUPS HAVE ALREADY EXPRESSED OPPOSITION TO PROPOSAL, WHILE HEADS OF CHAMBERS OF COMMERCE HAVE "WELCOMED THE PROPOSAL." GOM AT SAME TIME HAS TAKEN OTHER ANTI-INFLATIONARY STEPS -- INCLUDING IMPOSING CEILINGS ON RICE AND A HIGHER INTEREST STRUCTURE --WHICH MAY OFFSET TO SOME DEGREE CRITICISM OF EXPORT SURCHARGE INCREASES.

4. IT REQUIRED COURAGE FOR RAZAK TO PRESENT THIS POLITICALLY SENSITIVE PROPOSAL IN THIS PRE-ELECTION PERIOD, AND IT WILL REQUIRE DETERMINATION TO PERSIST IN THE FACE OF THE OPPOSITION THAT IT WILL AROUSE. HOWEVER, TUN RAZAK'S GRIP ON THE POLITICAL PROCESS IS STRONG AND THERE IS NO QUESTION OF HIS ABILITY TO IMPLEMENT THEM. THEREFORE, WE BELIEVE GOM WILL PUSH THEM THROUGH DESPITE THE UNCERTAINTY OF THEIR OUTCOME.

5. EMBASSY WISHES NOTE THAT RAZAK'S PROPOSAL APPEARS WHOLLY AN ANTI-INFLATIONARY MEASURE, AND IS NOT AIMED AT GAINING GREATER CONTROL OVER LIMITED OFFICIAL USE

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MARKETING OF THESE PRODUCTS. HOWEVER, WE RECOGNIZE THE POSSIBILITY MAY LEAD IN DIRECTION OF MARKET CONTROL AND WILL BE WATCHING FOR EVIDENCE ON THIS POINT. WOULD APPRECIATE REPORTING FROM OTHER POSTS REGARDING POSSIBLE SIMILAR STEPS BY OTHER GOVTS.

6. DETAILED DESCRIPTION OF PROPOSAL, AND OTHER COMMENTS ON INFLATION IN MALAYSIA BEING SENT BY AIRGRAM.

UNDERHILL

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Message Attributes

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